1999 Survey of OTC Derivatives Use and Risk Management Practices

Association for Financial Professionals

ASSOCIATION FOR [1]
FINANCIAL PROFESSIONALS

1999 SURVEY OF OTC DERIVATIVES USE AND RISK MANAGEMENT PRACTICES

EXECUTIVE SUMMARY

The Association for Financial Professionals (AFP) has undertaken its second survey of derivatives use and risk management practices among its members' organizations. Once again, AFP has drawn upon its unique membership base – individuals engaged in the treasury profession at a wide range of organizations such as publicly and privately held corporations, governmental units and other non-profit institutions – to provide a broad perspective on important and timely issues surrounding the use of derivatives.

Like the 1995 survey, the current survey addresses the full spectrum of derivatives, including both OTC and exchange-traded derivative contracts and derivative securities. The current survey places more focus on the use of OTC derivatives in order to address issues involving risk management practices, counterparty relationships, new accounting and disclosure requirements, and proposals for additional regulation.

AFP received responses from 395 organizations reflecting a diverse range of organizational activities, including manufacturing (26%), insurance (9%), government (7%), financial services (6%), utility (6%), and others. Publicly held firms were 50% of the respondents, while privately held firms were 30%, and governmental, non-profit or other entities made up the remaining 20%. Based on 12-month revenue, 48% indicated revenues greater than \$500 million and \$100 million and were classified as "Medium." The remainder were "Small" organizations (19%) with less than \$100 million in revenues.

While the full report contains an extensive analysis of the survey data, the important highlights are summarized below.

Use of Derivatives

- Derivatives are widely used, with 63% of all respondents indicating that they use derivatives for risk management or hedging, in conjunction with obtaining funding or for investment and trading. For large organizations, 78% used derivatives.

- Derivatives are primarily used for risk management or hedging (86% of all users), compared to other uses such as obtaining funding (40%) or investment and trading (19%).

[1] In October of 1999 the Treasury Management Association announced its name was changed to the Association for Financial Professionals. In June of 1999 the End Users of Derivatives Council merged with the Treasury Management Association.

1999 SURVEY OF OTC DERIVATIVES USE
AND RISK MANAGEMENT PRACTICES

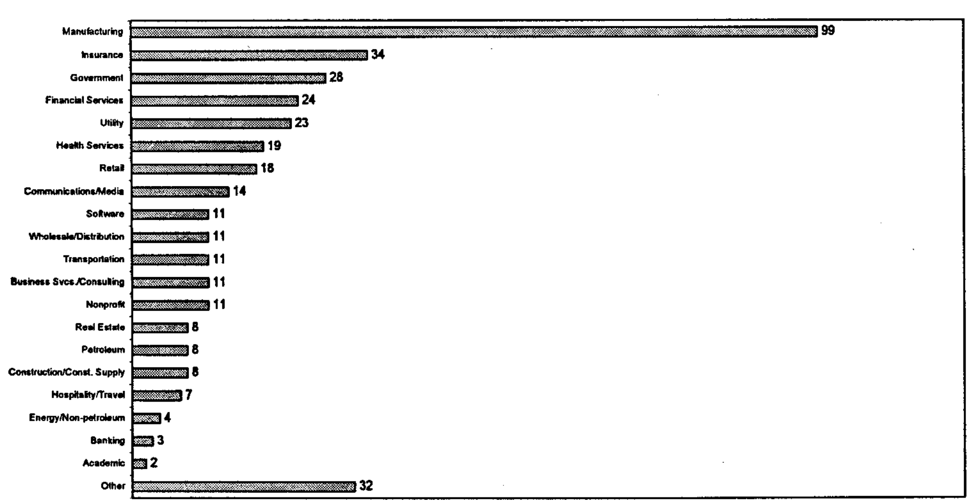
Introduction

In 1995, the Treasury Management Association conducted its first survey of derivatives practices and instruments. The individual members surveyed represented a wide range of organizations. While the 1999 survey also addresses the use of derivatives, it has been extended to include more detailed questions on topics such as risk management practices and controls; sourcing and counterparty relationships; accounting and disclosure; and regulatory issues. The 1999 survey also adds more detail on the relative importance of OTC and exchange traded derivatives; the factors influencing the choice of instruments; the effectiveness of derivatives in achieving organizational goals; and trends in the use of derivatives.

Survey Sample and Respondent Profile

In January 1999, questionnaires were mailed to 4000 select TMA members. 395 questionnaires were received back indicating a response rate of slightly less than 10%. The responses reflected a diverse range of organizational activities. Manufacturing with 99 responses (26%) was the largest quoted industry category, followed by insurance (9%), government (7%), financial services (6%), and utility (6%). *Results in the report are quoted as percentages of the actual number of respondents to each question, disregarding blanks/ no answers.*

Chart I.1: General Information
Business Activity



Out of the organizations providing a 12-month revenue figure, 48% indicated revenues greater than $500mm, and were classified as "Large". Other organizations were categorized as "Medium" ($100mm-$500mm) and "Small" (<$100mm), and comprised 34% and 19% of the sample, respectively. Revenues were largely derived from domestic sales, which constituted over 75% of total sales, for three out of four respondents; while about one in ten organizations indicated a foreign sales component of 50% or higher.

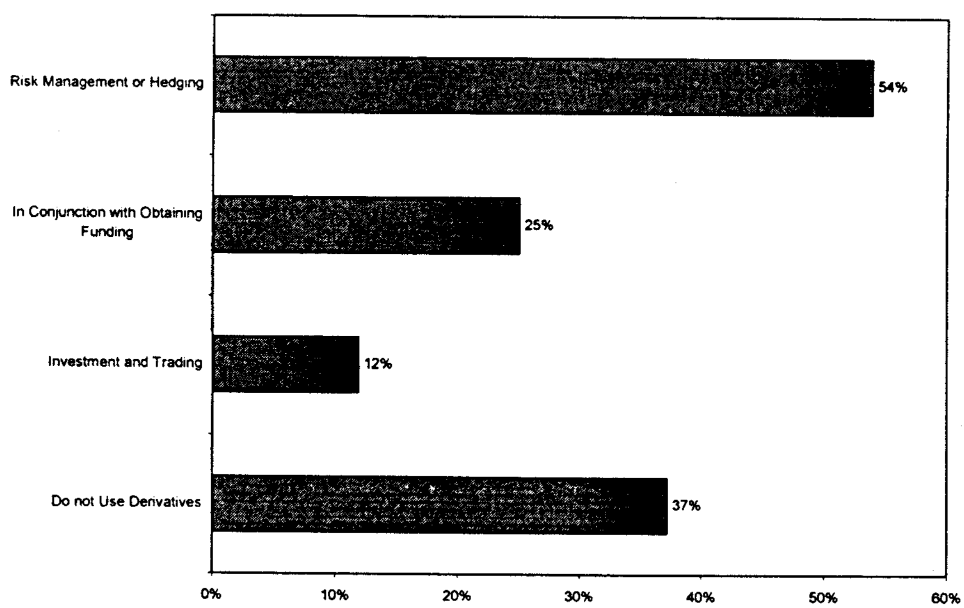
Publicly held firms constituted 50% of the total sample, while privately held firms constituted 30%, and organizations classified as a governmental, non-profit, or other entity constituted the remaining 20%.

Use of Derivatives

Respondents were asked to indicate whether or not their organization was materially exposed to foreign exchange risk, interest rate risk, and commodity price risk. Out of the total number of respondents for each type of risk, 61% indicated material exposure to interest-rate risk, while 40% and 24% reported material exposure to foreign exchange risk and commodity price risk, respectively. Roughly one out of ten firms reported that they were materially exposed to all three types of risk.

Out of the 395 respondents, 147 (37%) indicated that they did not use derivatives. The other 248 (63%) used derivatives for either (1) risk management or hedging, (2) in conjunction with

Chart I.6 : Use of Derivatives

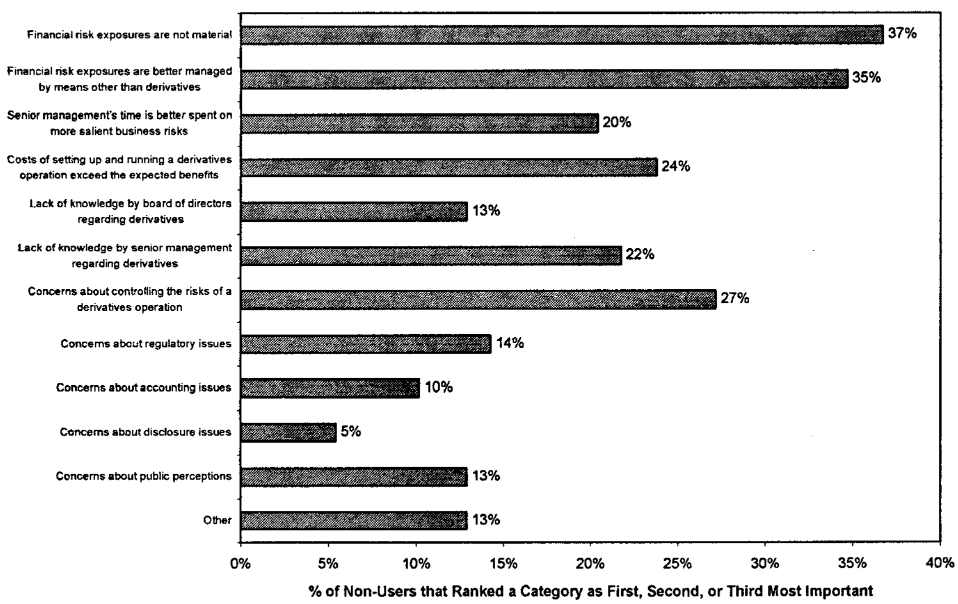


obtaining funding, or (3) investment and trading.

The decision to use derivatives is highly related to the size of the organization, increasing from only 47% of the sample for "Small" organizations to 78% of the sample for "Large" organizations. Also, publicly held firms tended to use derivatives more than privately held firms (i.e., 78% versus 55%).

While the survey focuses mainly on those organizations using derivatives, it also addresses the factors that influenced organizations not to use derivatives. In particular, current non-users of derivatives were asked to pick the top three reasons why their organizations did not use derivatives. Non-material financial exposures was cited most frequently (37% of non-users) as one of the top three reasons for not using derivatives. Other important influences in the decision not to use derivatives were "financial risk exposures are better managed by means other than derivatives"(35%), and "concerns about controlling the risks of a derivatives operation" (27%). Compared to earlier user surveys it would appear that concerns about negative public perceptions from the use of derivatives have faded somewhat over the years.

Chart I.7 : Most Frequently Cited Influences on Decision Not to Use Derivatives



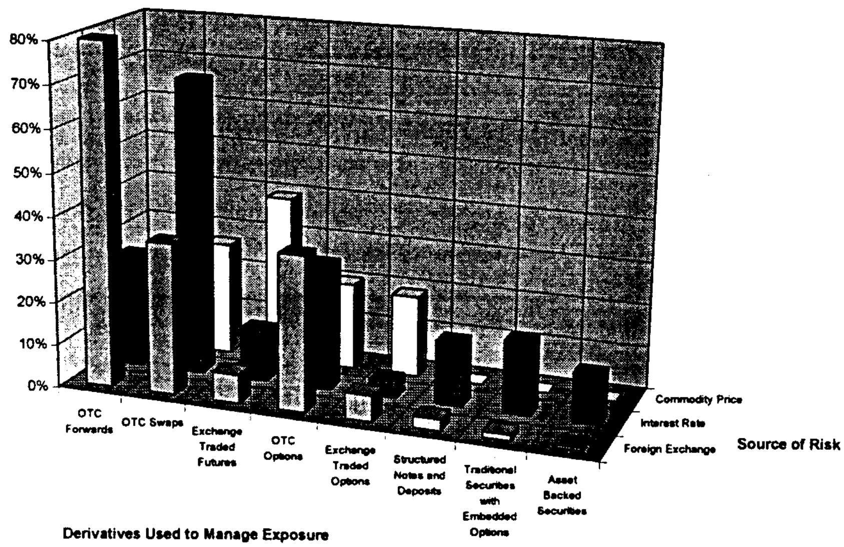
In response to a question about plans to use derivatives in the next twelve months, only 6% of the current non-users answered in the positive.

Use of Derivatives for Risk Management or Hedging

Out of the total 395 respondents, 213 (54%) used derivatives for risk management or hedging. Out of these 213 respondents, 150 reported that they use derivatives to manage or hedge foreign exchange or interest rate risk exposure, while 79 used derivatives to manage commodity price risk exposure. Publicly held firms were four times as likely to use derivatives for risk management or hedging than governmental or non-profit organizations.

In response to a question asking respondents to rank particular derivative instruments by order of importance, OTC derivatives emerged as the clear choice over exchange traded derivatives for managing or hedging foreign exchange and interest rate risk exposures.

Chart II.2 : Use of Derivatives By Exposure and Type of Instrument
Derivatives Ranked As First, Second, or Third Most Important

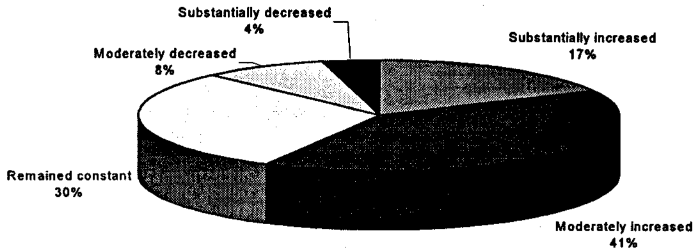


For managing foreign exchange exposures, OTC forwards, OTC swaps and OTC options were ranked among the top three instruments in terms of importance by 80%, 35%, and 36% of respondents, respectively. Less than 7% of respondents included exchange traded futures and options in the list of the top three instruments.

For managing interest rate exposures, OTC swaps, OTC options, and OTC forwards were ranked among the top three instruments in terms of importance by 69%, 29%, and 27% of respondents, respectively. Slightly more than 12% included exchange traded futures in the list of the top three instruments.

For managing commodity price exposures, exchange traded futures were ranked among the top three by 39% of respondents with exchange traded options, OTC swaps, OTC forwards, and OTC options being mentioned by 19% to 27% of respondents.

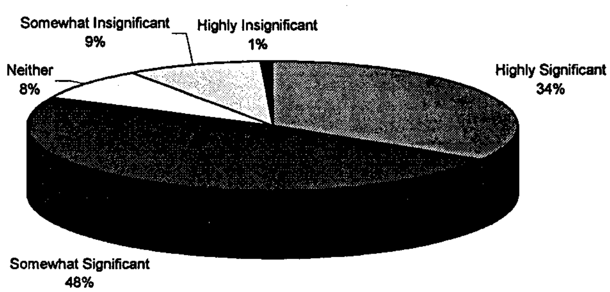
Chart II.3 Derivatives Used for Risk Management Including Hedging
Use of Derivatives Compared to Prior Year



Based on the notional value of contracts traded or written, 88% of respondents reported that the use of derivatives for risk management either increased substantially (17%), increased moderately (41%), or remained constant (30%). Interestingly, a higher percentage of "Small" firms reported an increase compared to "Large" firms. Only 4% of organizations reported a substantial decrease.

Respondents were also asked to provide an assessment of how significant derivatives had been in managing or hedging the firm's risk exposures. More than four out of five respondents rated derivatives as being "significant" in helping their organization manage or hedge its risk exposure, with 48% indicating they were "somewhat significant" and 34% saying they were "highly significant".

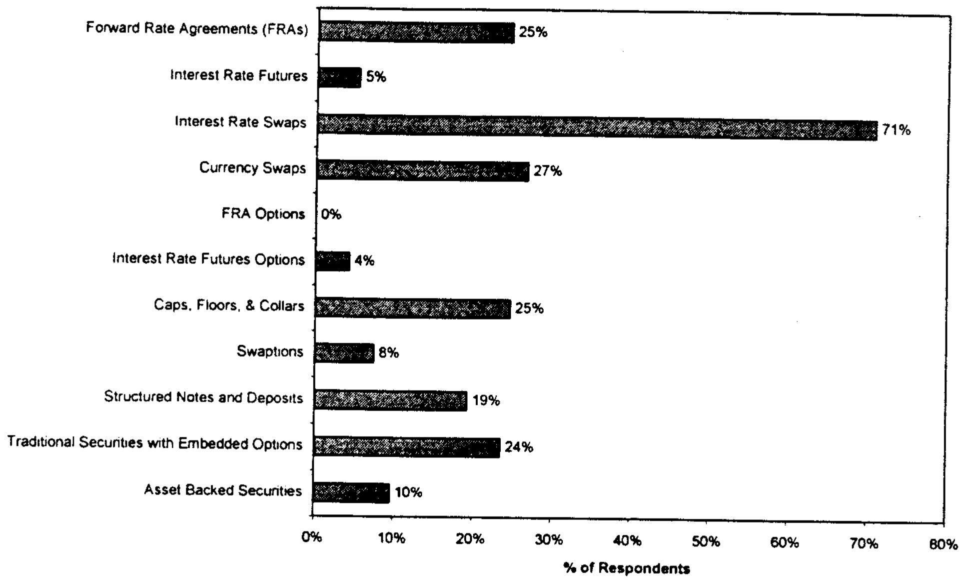
Chart II.4 : Significance of Derivatives In Managing or Hedging Risk Exposures



Use of Derivatives for Obtaining Funding

Out of the total 395 respondents, 99 (25%) reported using derivatives in conjunction with obtaining funding. A lower percentage of privately held firms used derivatives for obtaining funding, compared to publicly held organizations or governmental or non-profit organizations.

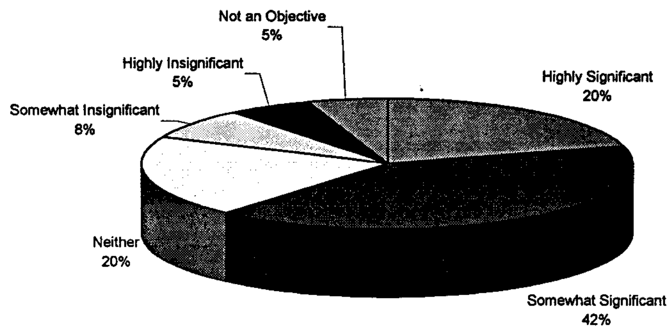
Chart III.2 : Derivatives Used for Obtaining Funding
Instruments Ranked as First, Second, or Third Most Important



Among respondents using derivatives for obtaining funding, swaps were the instrument of choice for funding purposes, with interest rate swaps being ranked in the top three by 71% of respondents and currency swaps by 27%. Other important derivatives for funding were forward rate agreements; caps, floors, and collars, callable/putable bonds, convertible bonds and warrants; and structured notes and deposits.

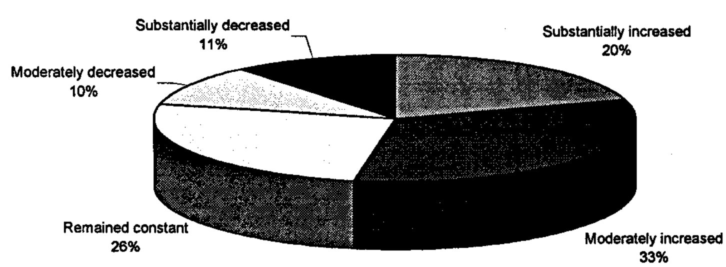
The effectiveness of derivatives in increasing the flexibility of funding choices was rated as significant by 62% of respondents, while 59% of respondents indicated that derivatives had played a significant role in lowering their organization's funding costs. Fewer respondents (38%) rated derivatives as being significant in increasing the availability of funding.

Chart III.5 : Significance of Derivatives in Increasing Flexibility of Funding Choices



Based on the notional value of contracts traded or written, nearly four out of five respondents indicated that their use of derivatives in conjunction with obtaining funding had either increased substantially (20%), increased moderately (33%), or remained unchanged (26%) compared to the prior year. However, 11% of respondents reported a substantial decrease.

Chart III.6 : Derivatives Used for Obtaining Funding
Use of Derivatives Compared to Prior Year

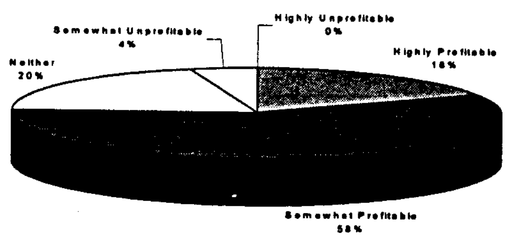


Use of Derivatives for Trading and Investment

Out of the total 395 respondents, 47 (12%) reported using derivatives for trading and investment purposes. In a reversal of the pattern found for use of derivatives for risk management or hedging purposes, governmental or non-profit organizations were four times as likely to use derivatives for trading and investment purposes as were publicly held firms.

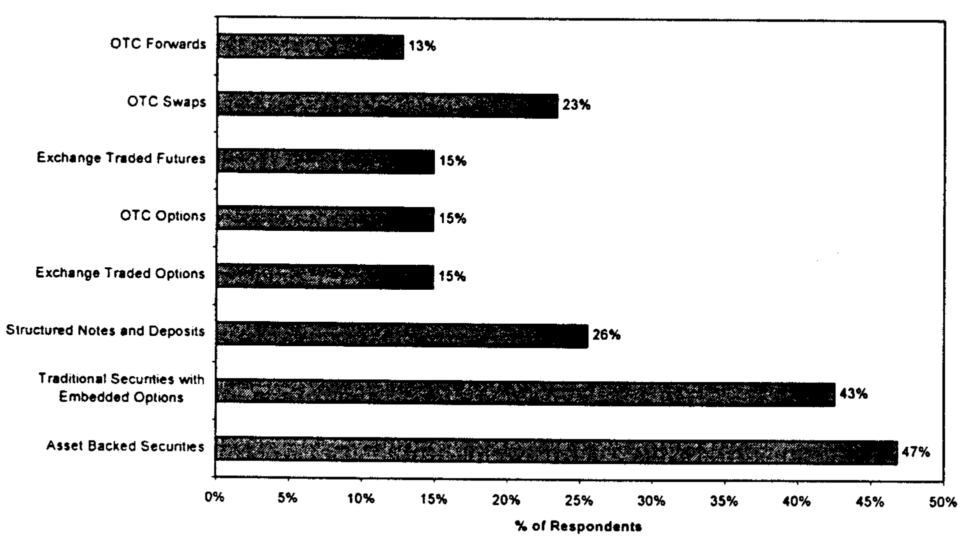
Out of the 47 users, 91% indicated that they had either broken even or realized profits on derivatives transactions over the past year. The comparable percentage for transactions done over the previous three years was even higher at 96%. None of the respondents categorized derivatives transactions as having been highly unprofitable.

QIV.3 : Profitability of Derivatives Transactions over Past 3 Years



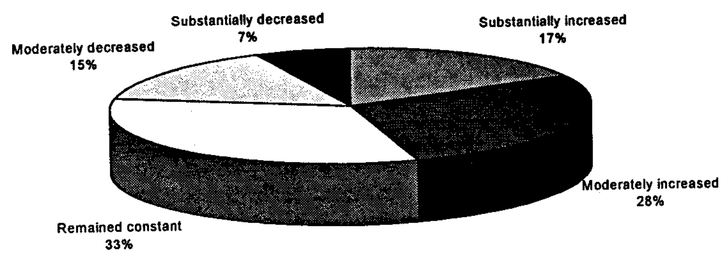
Asset backed securities and traditional securities with embedded options were the dominant instruments in terms of importance for trading and investment purposes, being ranked as one of the top three instruments by 47% and 43% of respondents, respectively. Structured notes and deposits, and OTC swaps were other important instruments.

QIV.4 : Derivatives Used for Trading and Investment Purposes
Instruments Ranked as First, Second, or Third Most Important



Nearly four-fifths of respondents reported that their use of derivatives for trading and investment purposes had either increased substantially (17%), increased moderately (28%), or remained constant (33%) compared to the previous year.

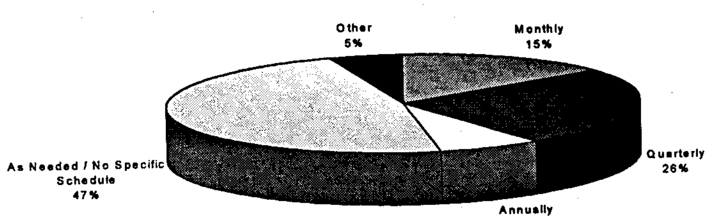
Chart IV.5 Derivatives Used for Trading and Investment Purposes
Use of Derivatives Compared to Prior Year



Risk Management Practices and Controls

In addition to providing information about their use of derivatives, respondents also were asked to provide information about their organization's policies and procedures relating to derivatives activities. A substantial number of respondents (79%) reported that their organization had documented policies and objectives governing the use of derivatives. An equal percentage said that the derivatives policies and objectives were approved by the board of directors. Moreover, in 81% of the organizations, these policies and procedures clearly defined the purposes for which derivatives transactions could be used. Controls to implement stated derivatives policies were also in place at 81% of the organizations.

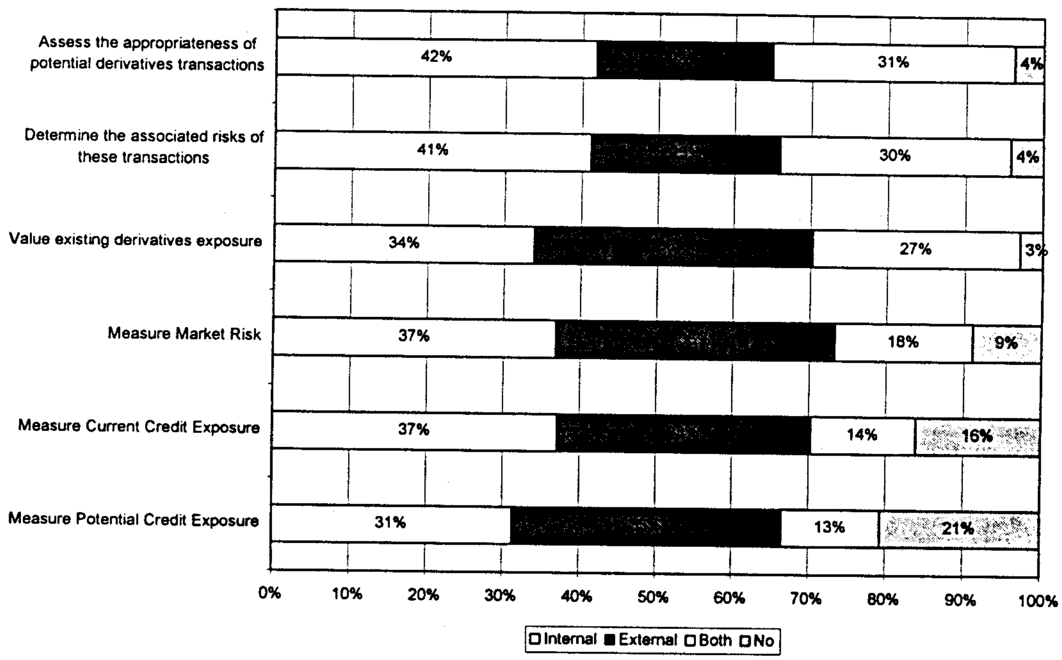
Chart V.5 Frequency of Reporting Derivatives Activity



Respondents were also asked the frequency of reporting derivatives activity to their board of directors. More than 41% of the organizations report derivatives activity to their board of directors on a quarterly or monthly basis. Again compared to previous surveys, the frequency of reporting appears to have increased, a result reflecting in all likelihood both the increased significance of derivatives in the financial activities of organizations, as well as greater understanding on part of senior management and boards of directors.

Over 95% of respondents report having the means, either internally or externally through independent third-party sources, to assess the appropriateness of derivatives transactions, determine the associated risks, and value derivatives exposure. Though 91% of the firms had either internal capability or access to third party measurements of market risk, the corresponding figure for measuring credit risk was significantly lower.

Chart V.6-8 Risk Managment Practices and Controls
Organization Capability



Over half of the organizations value their derivatives portfolio on a monthly or more frequent basis, 19% on a quarterly basis, and 23% reported on an as needed basis with no specific schedule.

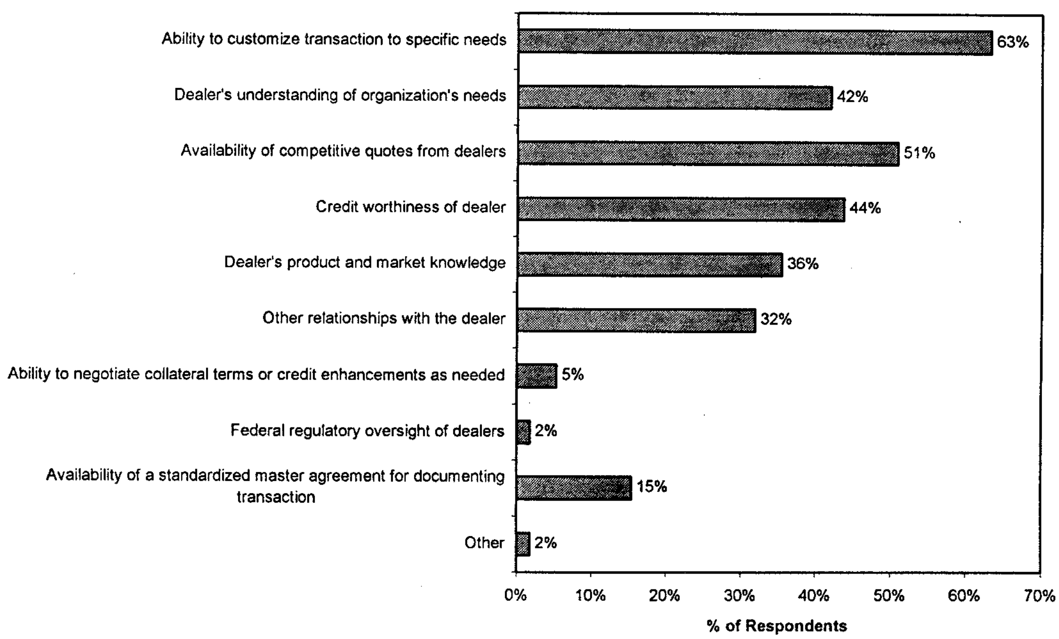
None of respondents reported default by counterparty on a derivatives contract in the last three years.

Sourcing and Counterparty Relationships

A significantly larger proportion of derivatives users reported using OTC derivatives (70%) compared to using exchange traded derivatives (24%).

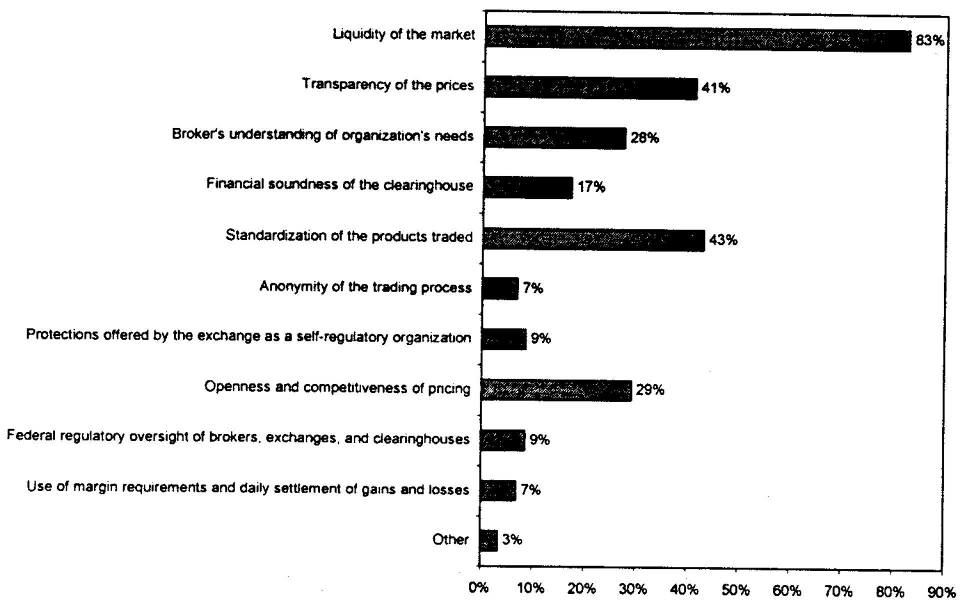
Of those respondents using OTC derivatives, 63% indicated that the "ability to customize transactions to specific needs" was one of the most important factors affecting their decision to use OTC derivatives. "Availability of competitive quotes from dealers" (51%) and "credit worthiness of dealer" (44%) were also frequently mentioned as major influences on the choice of derivative instrument.

Chart VI.2 Decision to Use OTC Derivatives
Factors Ranked as First, Second, or Third Most Important



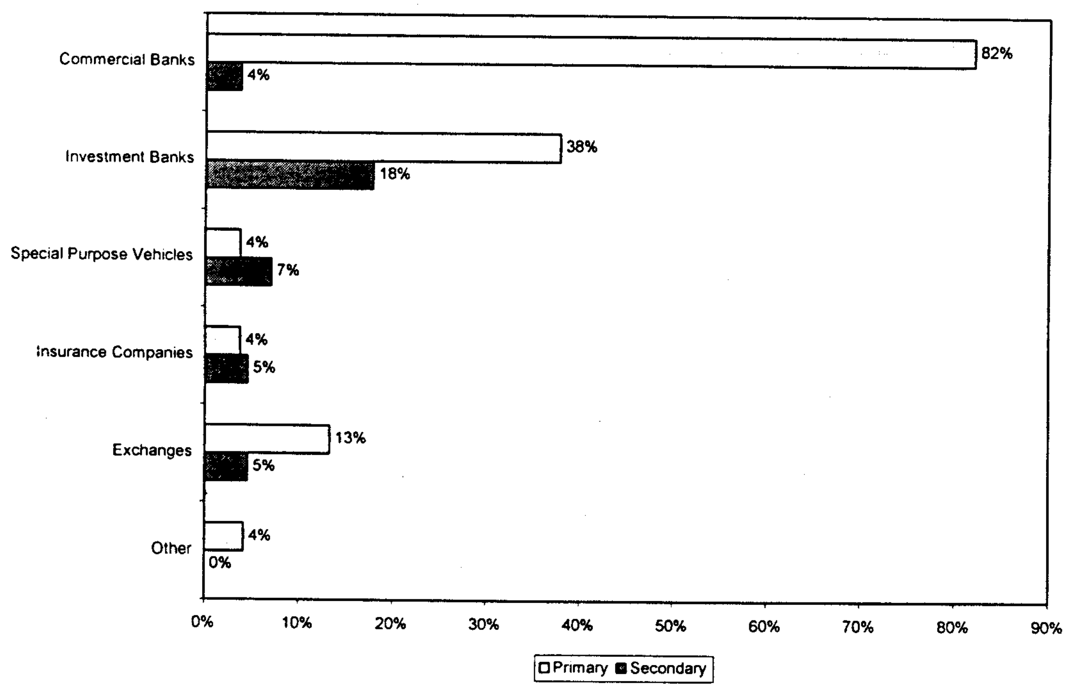
Of those respondents using exchange traded derivatives, 83% ranked "liquidity of the market" as one of the most important factors in their decision to use exchange traded derivatives. "Standardization of products traded" (43%), and "transparency of the prices" (41%) and were also frequently mentioned as major influences on the choice of derivative instrument.

Chart VI.4 : Decision to Use Exchange Traded Derivatives



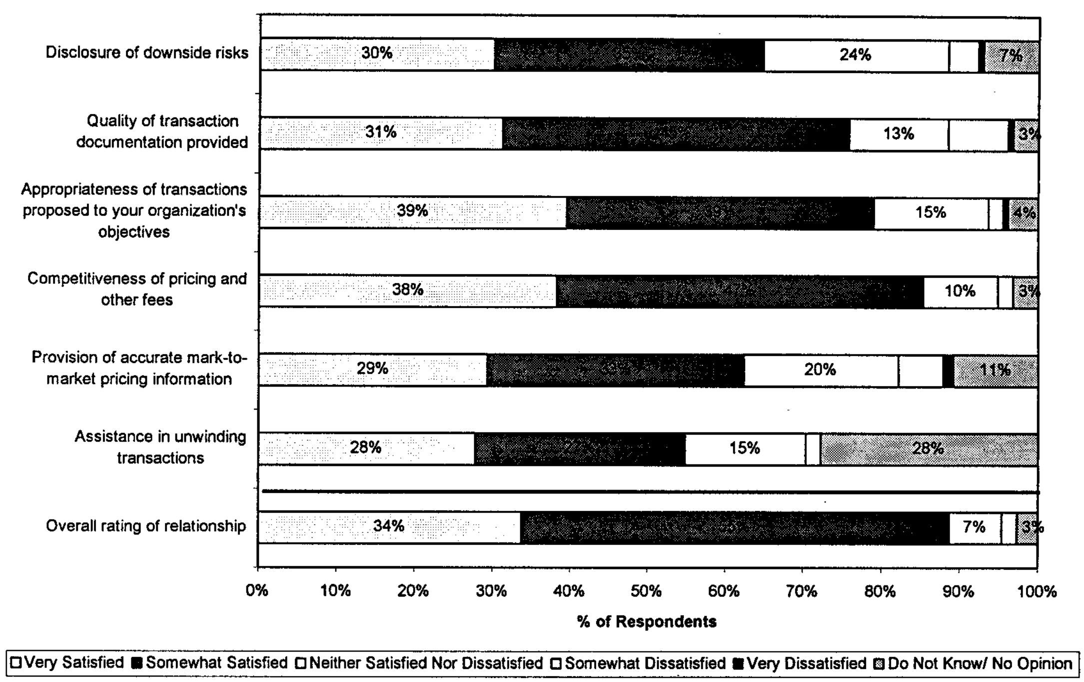
Commercial banks (82%) were rated as a primary source of derivatives transactions by the majority of derivatives users, followed by investment banks (38%) and exchanges (13%). Special purpose vehicles, insurance companies, other sources were each mentioned as primary sources by roughly 5% of the firms.

Chart VI.5 : Source of Derivatives Transactions



In response to a question about the number of different counterparties for OTC derivatives transactions, a large proportion (70%) of respondents reported transactions with fewer than five counterparties in the past year. Respondents were then asked to indicate their level of satisfaction of their relationship, on various dimensions, with existing derivatives dealers. On an overall basis, 89% of respondents were satisfied (i.e., somewhat satisfied or very satisfied) with their relationship with their OTC derivatives dealer. Overall, only 2% reported dissatisfaction, arising primarily out of "quality of transaction documentation provided" and "provision of accurate mark-to-market pricing information".

Chart VI.7 Satisfaction with Derivatives Dealer Relationship



The satisfaction ratings for other derivatives dealers with whom organizations had discussed but not completed potential transactions, were consistently lower than for dealers actually transacted with. On an overall basis only 59% reported being satisfied, while 13% indicated dissatisfaction arising primarily out of price competitiveness and appropriateness of proposed transactions.

Respondents were also asked about their level of dependence on derivatives dealers for investment/risk management advice. Only 7% of respondents indicated relying on derivatives dealers to a great extent, while 31% said that they did so to a little or no extent.

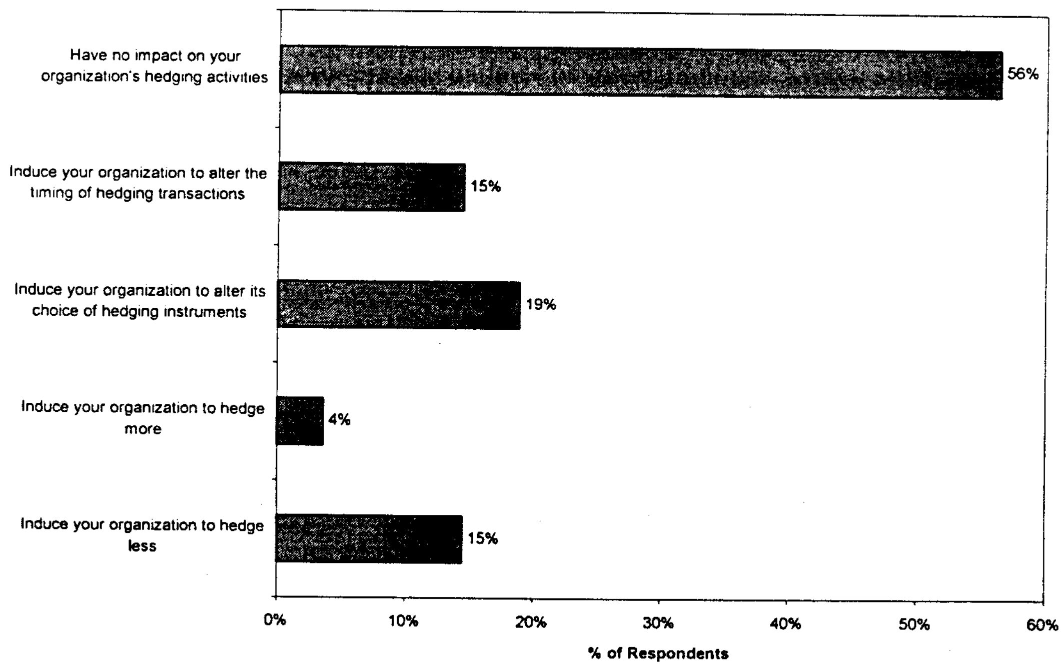
On the question of whether a fiduciary relationship exists when an organization enters into an OTC derivatives contract with a dealer, 32% said "yes-in some cases" while 17% said "no" in either some or all cases. Over one-third of respondents (36%) said "yes-in all cases".

Only 6% of the derivatives users reported having had a dispute with a derivatives dealer in the last three years. Almost all of these disputes were settled through negotiation. The numbers for disputes with futures broker, exchange, or clearinghouse were lower with only 1% of respondents reporting disputes. Again, these disputes also were resolved predominately through negotiation.

Accounting, Disclosure, and Regulatory Issues

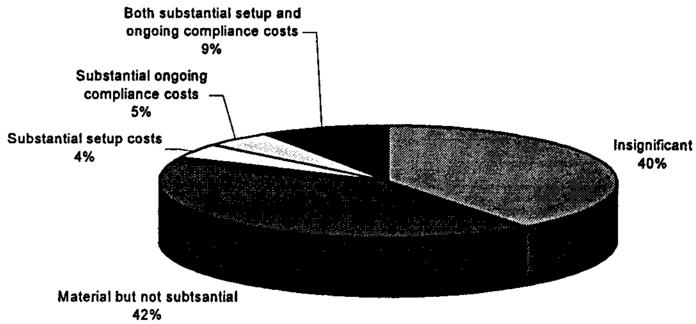
In order to gauge the likely impact of the recent FAS133 guidelines, respondents were asked about possible changes in their organization's hedging patterns in response to the requirements of FAS133. While 56% of respondents thought FAS133 would have no impact on their organization's hedging activities, other respondents indicated that it would affect either the extent (19%) or timing (15%) of hedging transactions or the choice of hedging instruments (19%).

Chart VII.1 : Likely Impact of FAS133 on Hedging Activities



While 40% of respondents thought that the compliance costs of FAS133 would be insignificant, others thought the cost would be material (42%) or substantial (18%). The issue of compliance seems to be more relevant for "Large" organizations with only 31% rating it as insignificant compared to 53% of "Medium" sized firms, and 61% of "Small" firms. This result tends to mirror the use of derivatives by organization size.

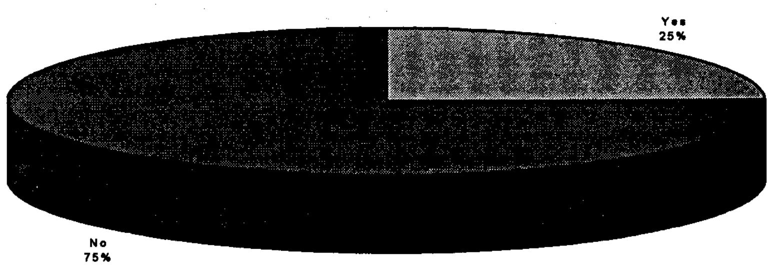
Chart VII.2 Anticipated FAS133 Compliance Costs



In order to gather feedback from actual derivatives users about the current debate regarding whether or not additional federal regulation of OTC derivatives activities is necessary, respondents were asked to comment on whether they believed additional regulation was necessary.

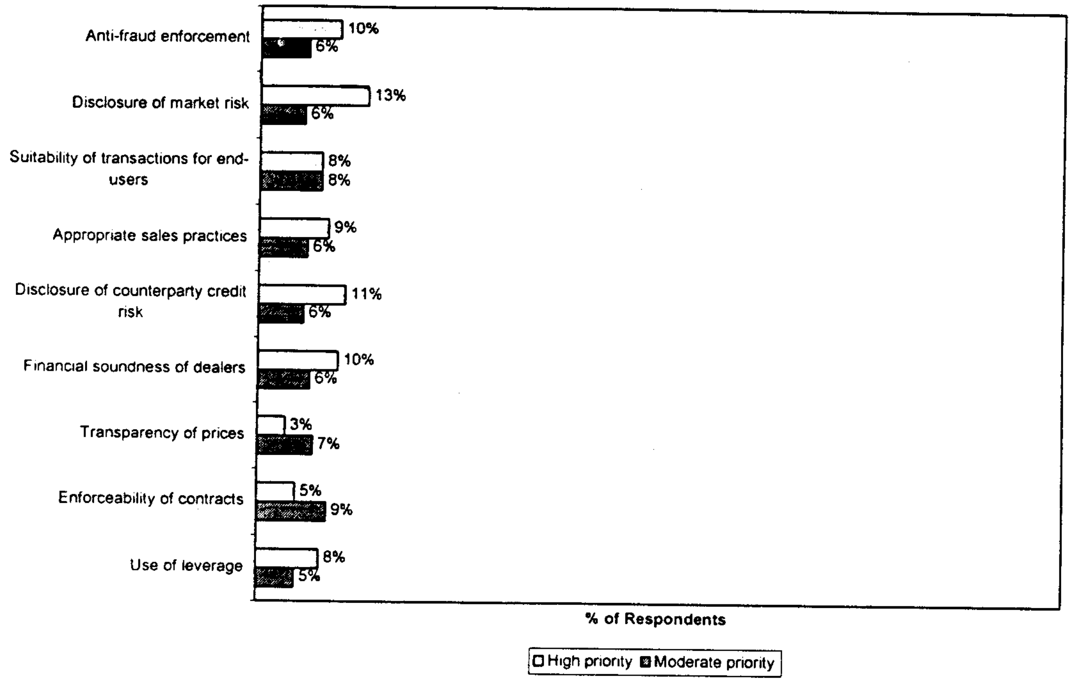
Of all derivatives users, 75% did not believe additional federal regulation of OTC derivatives activities of dealers and end-users is necessary. The perceived need for additional regulation also appears to be inversely related to organization size, with only 18% of the "Large" users saying yes, compared to 34% from "Medium" sized users, and 24% from "Small" users. A larger percentage of users from the governmental or non-profit category (40%) believed that additional regulation was necessary, compared to privately held firms (21%) and publicly held firms (20%).

Chart VII.3 : Additional Federal Regulation of OTC Derivative Activities



The areas considered to be a priority for additional regulation included disclosure of market risk (13%), followed by disclosure of counterparty risk (11%), anti-fraud enforcement (10%), and financial soundness of dealers (10%).

QVII.4 Additional Federal Regulation



TMA SURVEY OF OTC DERIVATIVES USE AND RISK MANAGEMENT PRACTICES

There are a diverse number of derivatives. Some derivatives are securities, which represent claims on underlying assets or cash flows, while others are simply contracts, which reference another asset or instrument and provide for risk transference. Additionally, some derivatives are privately negotiated (or over the counter, i.e., OTC) and others are exchange traded. Furthermore, some derivatives are option-based while others are forward-based. The following table presents the classification scheme for you to use as reference for answering the questions on this survey document. Some examples of each category are included. Please refer to this table when answering the survey questions.

CLASSES OF DERIVATIVES

DERIVATIVE CONTRACTS

Forward-based Derivatives		Option-based Derivatives	
OTC Forwards	*Exchange Traded Futures*	*OTC Options*	*Exchange Traded Options*
Examples:	**Examples:**	**Examples:**	**Examples:**
Foreign Exchange Forwards	**Yen/$ Futures**	**Currency Options**	**Yen/$ Futures Options**
Forward Rate Agreements (FRAs)	**DeutscheMark/$ Futures**	**Bond Options**	**Eurodollar Futures Options**
Commodity Forwards	**Eurodollar Futures**	**FRA Options**	**Euromark Futures Options**
OTC Swaps	**US Treasury Bond Futures**	**Caps, Floors, & Collars**	**Wheat Futures Options**
Examples:	**British Gilt Futures**	**Swaptions**	**Stock Options**
Currency Swaps	**Oil Futures**	**Commodity Options**	**S&P Futures Options**
Interest Rate Swaps	**S&P Futures**		**S&P Index Options**
Commodity Swaps			
Equity Swaps			

DERIVATIVE SECURITIES

Structured Notes and Deposits	*Traditional Securities With Embedded Options*	*Asset Backed Securities*
Examples:	**Examples:**	**Examples:**
Dual Currency Notes	**Callable Bonds**	**CMOs**
Principal Exchange Rate Linked Notes	**Putable Bonds**	**Interest Only (IOs)**
Inverse Floating-Rate Notes	**Convertible Bonds**	**Principal Only (POs)**
Multi-Indexed Floating Rate Notes	**Warrants**	**Securitized Receivables**
Oil-Linked Notes		
S&P-Indexed Deposits		

I. GENERAL INFORMATION

Organizations may differ significantly in their use of derivatives due to factors such as size, industry, and foreign investment/sales activities. The questions in this section solicit information to place your organization in perspective relative to other organizations and/or industries. Please complete this section whether or not your organization uses derivatives.

1. Which one of the following industry categories best describes your firm's business activity?

Academic	____	Manufacturing	____
Banking	____	Nonprofit	____
Business Svcs./Consulting	____	Petroleum	____
Communications/Media	____	Real Estate	____
Construction/Const. Supply	____	Retail	____
Energy/Non-petroleum	____	Software	____
Financial Services	____	Transportation	____
Government	____	Utility	____
Health Services	____	Wholesale/Distribution	____
Hospitality/Travel	____	Other (Specify)	____
Insurance	____		

2. Using your organization's most recently completed quarterly financial statements, report (in $millions) your organization's:

   12 Months Revenues $ _____ Total Assets $ ______

3. Is your organization:

   A publicly held firm ____
   A privately held firm ____
   A governmental entity, a non-profit or other entity ____

4. Is your organization materially exposed to any of the following types of risks?

   Foreign Exchange Risk Yes ___ No ___
   Interest Rate Risk Yes ___ No ___
   Commodity Price Risk Yes ___ No ___

5. Approximately what percentage of your organization's sales are:

   Domestic ____ % Foreign ____ %

6. Does your organization use derivatives for:

   Risk Management or Hedging Yes ____ No ____
   In Conjunction with Obtaining Funding Yes ____ No ____
   Investment and Trading Yes ____ No ____

   If you checked Yes to any of the above, please continue to section II. If you checked No to All of the above, please go to questions 7 and 8.

7. Please indicate the three most important influences on your organization's decision not to use derivatives.
(1=Most important, 2=Second Most Important, and 3= Third Most Important)

______ Financial risk exposures are not material
______ Financial risk exposures are better managed by means other than derivatives
______ Senior management's time is better spent on more salient business risks
______ Costs of setting up and running a derivatives operation exceed the expected benefits
______ Lack of knowledge by board of directors regarding derivatives
______ Lack of knowledge by senior management regarding derivatives
______ Concerns about controlling the risks of a derivatives operation
______ Concerns about regulatory issues
______ Concerns about accounting issues
______ Concerns about disclosure issues
______ Concerns about public perceptions
______ Other (Specify) ______________________________

8. Does your organization plan to use derivatives in the next twelve months?

Yes ______ No ______

II. DERIVATIVES USED FOR RISK MANAGEMENT INCLUDING HEDGING

1. Does your organization use derivatives for risk management or hedging?

Yes ______ No ______

If no, proceed to section III.

2. For each source of risk that your organization manages or hedges, rank the eight types of derivatives below by order of importance in the management of that particular exposure.
(For each column, please rank the instruments by the order of importance for managing that exposure: 1=Most important,..., 8=Least important; "0" if not used. If the exposure in the column is not managed, please place an "X" in the first row.)

	Foreign Exchange Risk	Interest Rate Risk	Commodity Price Risk
Exposure is not managed (use an "X")	______	______	______
OTC Forwards	______	______	______
OTC Swaps	______	______	______
Exchange Traded Futures	______	______	______
OTC Options	______	______	______
Exchange Traded Options	______	______	______
Structured Notes & Deposits	______	______	______
Traditional Securities with Embedded Options	______	______	______
Asset Backed Securities	______	______	______

3. Based upon the notional value of contracts traded or written, how does your organization's use of derivatives for risk management or hedging purposes in the last twelve months compare to its use in the prior year?

______ Substantially increased
______ Moderately increased
______ Remained constant
______ Moderately decreased
______ Substantially decreased

4. How significant have derivatives been in helping your organization to manage or hedge its risk exposures?

Highly Significant	Somewhat Significant	Neither	Somewhat Insignificant	Highly Insignificant
1	2	3	4	5

III. DERIVATIVES USED FOR OBTAINING FUNDING

1. Has your organization used derivatives in conjunction with raising funds in the past three years?

Yes ______ No ______

If no, proceed to section IV.

2. Rank the 11 types of derivatives below by order of importance to your organization in conjunction with achieving desired funding objectives.
(1=Most important, ..., 11=Least important; "0" if not used.)

	Rank
Forward Rate Agreements (FRAs)	______
Interest Rate Futures	______
Interest Rate Swaps	______
Currency Swaps	______
FRA Options	______
Interest Rate Futures Options	______
Caps, Floors, & Collars	______
Swaptions	______
Structured Notes and Deposits	______
Traditional Structures with Embedded Options	______
Asset Backed Securities	______

3. How significant have derivatives been in helping to lower your organization's funding costs?

Highly Significant	Somewhat Significant	Neither	Somewhat Insignificant	Highly Insignificant	Not An Objective
1	2	3	4	5	6

4. How significant have derivatives been in helping to increase the availability of funding to your organization?

Highly Significant	Somewhat Significant	Neither	Somewhat Insignificant	Highly Insignificant	Not An Objective
1	2	3	4	5	6

5. How significant have derivatives been in helping to increase the flexibility of funding choices for your organization?

Highly Significant	Somewhat Significant	Neither	Somewhat Insignificant	Highly Insignificant	Not An Objective
1	2	3	4	5	6

6. Based upon the notional value of contracts traded or written, how does your organization's use of derivatives in conjunction with obtaining funding in the last twelve months compare to its use in the prior year?

   ______ Substantially increased
   ______ Moderately increased
   ______ Remained constant
   ______ Moderately decreased
   ______ Substantially decreased

IV. DERIVATIVES USED FOR TRADING AND INVESTMENT PURPOSES

1. Does your organization hold derivatives for trading and investment purposes?

   Yes ______ No ______

If no, proceed to section V.

2. Considering only those derivative transactions entered for trading and/or investment purposes, how profitable have your organization's derivatives activities been over the past year?

Highly Profitable	Somewhat Profitable	Neither	Somewhat Unprofitable	Highly Unprofitable
1	2	3	4	5

3. Considering only those derivative transactions entered for trading and/or investment purposes, how profitable have your organization's derivatives activities been over the past 3 years?

Highly Profitable	Somewhat Profitable	Neither	Somewhat Unprofitable	Highly Unprofitable
1	2	3	4	5

4. Rank the 8 types of derivatives listed below by order of importance to your organization for achieving its trading and/or investment objectives.
   (1=Most important,...,8=Least important; "0" if not used)

	Rank
OTC Forwards	______
OTC Swaps	______
Exchange Traded Futures	______
OTC Options	______
Exchange Traded Options	______
Structured Notes and Deposits	______
Traditional Securities with Embedded Options	______
Asset Backed Securities	______

5. Based upon the notional value of contracts traded or written, how does your organization's use of derivatives for trading and investment purposes in the last twelve months compare to its use in the prior year?

   ______ Substantially increased
   ______ Moderately increased
   ______ Remained constant
   ______ Moderately decreased
   ______ Substantially decreased

V. RISK MANAGEMENT PRACTICES AND CONTROLS

1. Does your organization have documented policies and objectives governing the use of derivatives?

   Yes ______ No ______

2. Are these policies and objectives approved by your organization's board of directors or a designated committee thereof?

   Yes ______ No ______

3. Has senior management developed and approved procedures and controls to implement these policies and objectives?

   Yes ______ No ______

4. Do your organization's policies and procedures governing the use of derivatives clearly define the purposes for which derivatives transactions can be undertaken?

   Yes ______ No ______

5. How frequently is derivatives activity reported to the board of directors or a designated committee thereof?

   ________ Monthly
   ________ Quarterly
   ________ Annually
   ________ As Needed/No Specific Schedule
   ________ Other (Specify) ____________

6. Does your organization have the capability either internally or through access to external third-party advisors to:

	Yes: Internal	Yes: External	No
(a) assess the appropriateness of potential derivatives transactions.	_____	_____	____
(b) determine the associated risks of these transactions.	_____	_____	____

7. Does your organization have the capability either internally or through access to external third-party advisors to value your organization's existing derivatives exposures?

Yes: Internal	Yes: External	No
_____	_____	____

8. Does your organization have the capability either internally or through access to external third-party advisors to measure the following risks of your existing derivatives exposures?

	Yes: Internal	Yes: External	No
(a) Market risk	_____	_____	____
(b) Current credit exposure	_____	_____	____
(c) Potential credit exposure	_____	_____	____

9. How frequently does your organization value its derivatives portfolio?

_____ Daily
_____ Weekly
_____ Monthly
_____ Quarterly
_____ Annually
_____ As needed/No Specific Schedule

10. Has your organization, in the last three years, experienced a default by a counterparty on a derivatives contract?

______ Yes ______ No

VI. SOURCING AND COUNTERPARTY RELATIONSHIPS

1. Does your organization use OTC derivatives?

Yes ______ (If yes, proceed to question 2.)
No ______ (If no, proceed to question 3.)

2. Please indicate the three most important factors in your organization's decision to use OTC derivatives.
(Please rank: 1=Most important; 2=Second most important; 3=Third most important)

______ Ability to customize transactions to specific needs
______ Dealer's understanding of organization's needs
______ Availability of competitive quotes from dealers
______ Credit worthiness of dealer
______ Dealer's product and market knowledge
______ Other relationships with the dealer
______ Ability to negotiate collateral terms or credit enhancements as needed
______ Federal regulatory oversight of dealers
______ Availability of a standardized master agreement for documenting transactions
______ Other (Specify)

3. Does your organization use exchange traded derivatives?

Yes ______ (If yes, proceed to question 4)
No ______ (If no, proceed to question 5)

4. Please indicate the three most important factors in your organization's decision to use exchange traded derivatives.
(Please rank: 1=Most important; 2=Second most important; 3=Third most important)

______ Liquidity of the market
______ Transparency of prices
______ Broker's understanding of organization's needs
______ Financial soundness of the clearinghouse
______ Standardization of the products traded
______ Anonymity of the trading process
______ Protections offered by the exchange as a self-regulatory organization
______ Openness and competitiveness of pricing
______ Federal regulatory oversight of brokers, exchanges, and clearinghouses
______ Use of margin requirements and daily settlement of gains and losses
______ Other (Specify) ____

5. Indicate whether each of the following is a source of derivatives transactions for your organization and, if so, whether it is a primary or secondary source.

	Not Used	Used	
		Primary	Secondary
Commercial Banks			
Investment Banks			
Special Purpose Vehicles			
Insurance Companies			
Exchanges			
Other (Specify)			

6. Approximately how many different counterparties did your organization have during the past year for its OTC derivatives transactions?

   Number ______

7. Consider all of the derivative dealers, regardless of size, including banks, securities firms, and insurance companies, with which your organization entered into OTC derivative transactions (i.e., OTC forwards, swaps, and options) in the last 12 months.

   Overall, how satisfied or dissatisfied is your organization with the following aspects of its relationship with the dealers with which it HAS ENTERED into OTC derivatives transactions within the last 12 months? Consider only these aspects of the relationship with the dealers described below and not the ultimate gain or loss on the contracts. *(Check only one box in each row.)*

	Very Satisfied	Somewhat Satisfied	Neither Satisfied Nor Dissatisfied	Somewhat Dissatisfied	Very Dissatisfied	Do Not Know/ No Opinion
Disclosure of downside risks						
Quality of transaction documentation provided						
Appropriateness of transactions proposed to your organization's objectives						
Competitiveness of pricing and other fees						
Provision of accurate mark-to-market pricing information						
Assistance in unwinding transactions						
Overall rating of the relationship						

8. To what extent did your organization rely on derivatives dealers to provide risk management or investment advice related to these proposed transactions?

   ______ To a great extent
   ______ To a moderate extent
   ______ To some extent
   ______ To little or no extent
   ______ Do not know/no opinion

9. Do you believe that a fiduciary relationship exists when an organization such as yours enters into an OTC derivatives contract with a dealer?

______ Yes – in all cases
______ Yes – in some cases
______ No – in all cases
______ No – in some cases
______ Do not know/no opinion

10. Now, please consider any OTHER derivatives dealers with whom your organization has discussed potential OTC derivative transactions (i.e., OTC forwards, swaps, and options) in the last 12 months, but with which it did NOT enter into any such transactions.

☐ If there were no such discussions in the last 12 months, check here and skip to question 11.

Overall, how satisfied or dissatisfied is your organization with the following aspects of its relationship with those dealers that you did NOT enter into OTC derivative transactions with? *(Check only one box in each row.)*

	Very Satisfied	Somewhat Satisfied	Neither Satisfied Nor Dissatisfied	Somewhat Dissatisfied	Very Dissatisfied	Do Not Know/ No Opinion
Disclosure of downside risks						
Quality of transaction documentation provided						
Appropriateness of transactions proposed to your organization's objectives						
Competitiveness of pricing and other fees						
Overall rating of the relationship						

11. Has your organization, in the last three years, had a dispute with a derivatives dealer regarding an OTC derivatives transaction? *(If your organization does not use OTC derivatives, skip to question 13.)*

Yes ______ No ______ Don't Know _____

12. If your organization did have disputes with derivatives dealers, how were they resolved? (Or, if they are still ongoing, how are they being resolved)?

______ Through negotiation
______ Through arbitration
______ Through litigation
______ Mainly through negotiation, but also through arbitration and/or litigation
______ Other (Specify) ________________________________

13. Has your organization, in the last three years, had a dispute with a futures broker, an exchange, or a related clearinghouse? *(If your organization does not use exchange traded futures, skip to section VII.)*

Yes ______ No ______ Don't Know _____

14. If your organization did have such disputes with a futures broker, exchange, or clearinghouse, how were they resolved? (Or, if they are still ongoing, how are they being resolved?)

______ Through negotiation
______ Through arbitration
______ Through litigation
______ Mainly through negotiation, but also through arbitration and/or litigation
______ Other (Specify) ____

VII. ACCOUNTING, DISCLOSURE, AND REGULATORY ISSUES

The Financial Accounting Standards Board issued FAS 133 – "Accounting for Derivative Instruments and Hedging Activities" in June 1988 effective for fiscal years beginning after June 15, 1999.

1. Indicate the likely impact that implementation of FAS 133 will have on your organization's hedging activities. *(Check as many responses as appropriate.)*

______ Induce your organization to hedge less
______ Induce your organization to hedge more
______ Induce your organization to alter its choice of hedging instruments
______ Induce your organization to alter the timing of hedging transactions
______ Have no impact on your organization's hedging activities

2. Does your organization anticipate that compliance with the requirements of FAS 133 will impose costs, in terms of staff time and effort and resource expenditures, that are best described as:

______ Insignificant
______ Material but not substantial
______ Substantial setup costs
______ Substantial ongoing compliance costs
______ Both substantial setup and ongoing compliance costs

3. Do you believe additional federal regulation of the OTC derivative activities of dealers and end-users is necessary?

Yes ______ (If yes, proceed to question 4.)
No ______

4. Please indicate which of the following areas, if any, require additional federal regulation. *(Indicate the priority you attach to additional regulation in each area by using 1=High priority; 2=Moderate priority; 3=Not a priority.)*

______ Anti-fraud enforcement
______ Disclosure of market risk
______ Suitability of transactions for end-users
______ Appropriate sales practices
______ Disclosure of counterparty credit risk
______ Financial soundness of dealers
______ Transparency of prices
______ Enforceability of contracts
______ Use of leverage
______ Other (Specify) ____________________________________